The Commonwealth of Massachusetts

**DEPARTMENT OF**
**TELECOMMUNICATIONS AND ENERGY**

D.T.E. 06-5-A August 31, 2006

Petition of Massachusetts Electric Company and Nantucket Electric Company for approval of its: (1) annual retail rate filing; and (2) distribution rate adjustment in compliance with Massachusetts Electric Company/Eastern Edison Company, D.T.E. 99-47 (2000).

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FOR: MASSACHUSETTS ELECTRIC COMPANY
AND NANTUCKET ELECTRIC COMPANY
d/b/a/ NATIONAL GRID
Petitioner

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## I. INTRODUCTION

On January 27, 2006, Massachusetts Electric Company ("MECo") and Nantucket Electric Company ("Nantucket") d/b/a National Grid (collectively, "MECo" or "Company") filed with the Department of Telecommunications and Energy ("Department") a rate reconciliation and adjustment filing pursuant to G.L. c. 164, § 1A(a) and 220 C.M.R. § 11.03(4)(e). On February 28, 2006, the Department approved, subject to further investigation and reconciliation, an average base transmission charge of 0.871 cents per kilowatthour ("KWH") for MECo and Nantucket. Massachusetts Electric and Nantucket Company, D.T.E. 06-5, at 10 (2006).

On August 1, 2006, the Company supplemented its initial filing and proposed to increase its average base transmission charge to 1.199 cents per KWH for consumption on and after September 1, 2006 (MECo Supp. at 5). The Company would implement this change in its proposed tariffs: M.D.T.E. Nos. 1089-A through 1099-A and M.D.T.E. Nos. 478-A through 485-A. MECo states that the proposed rate increase mainly results from an underestimation of reliability must run ("RMR")[1] costs billed to MECo by the ISO-New England, Inc. ("ISO-NE") (MECo Supp. at 121). The Company states that without this adjustment, it will accrue significant under-recoveries of transmission costs during 2006 (MECo Supp. at 6). As of June 30, 2006, MECo's transmission account has an

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1 RMR generation resources are resources that ISO-NE has identified as necessary to maintain the reliability of the regional transmission system (e.g., to provide operating reserves and adherence to North American Electric Reliability Council, Northeast Power Coordinating Council, and ISO-NE reliability criteria) and, therefore, are dispatched outside of the economic dispatch (MECo Supp. at 123).

under-recovery of approximately $26.7 million (MECo Supp. at 15). In this filing, the Company does not propose to recover this under-collection (id. at 7). On August 8, 2006, the Department issued a Notice for Comments. The Attorney General of the Commonwealth ("Attorney General") submitted comments.

## II. DESCRIPTION OF THE FILING

The Company proposed in its supplemental filing to change its average base transmission charge effective September 1, 2006, from 0.871 cents per KWH to 1.199 cents per KWH (MECo Supp. at 7). The proposed transmission charge was calculated by dividing the updated forecast of 2006 transmission costs by the 2006 forecasted sales. MECo states that the proposed increase in the average base transmission rates result from an updated forecast of 2006 transmission costs due to known changes in RMR costs being billed to the Company (MECo Supp. at 125). MECo also states that the proposed increase to the transmission charge is partly due to the elimination of a one-time, non-recurring credit that New England Power Company provided to MECo in 2005, which was included in the Company's initial filing (id. at 6, 122).

In the Company's original filing, total RMR costs were estimated to be approximately $8.6 million; however, in the current supplemental filing, MECo states that RMR costs are estimated to be $96 million (id. at 125). Thus, 2006 transmission expenses originally forecasted to be $175 million are now forecasted to be $269 million (id. at 7). The Company states that there are two reasons for the increase to forecasted transmission costs. First, the initial forecast was based on actual RMR costs incurred for a twelve-month period immediately prior to the time the forecast was developed (id. at 5-6, 124-25). RMR costs for the previous twelve months averaged $800,000 per month (id. at 125). The Company states that, from January 2006 through May 2006, average monthly RMR costs were approximately $7.3 million (id.).

When the generation entity seeks an RMR cost-of-service contract and applies to ISO-NE for RMR treatment of the generating resource, ISO-NE must determine that there exists a reliability need for the generation resource (MECo Supp. at 123). If ISO-NE determines that the generating resource is needed for reliability, the proponent (i.e., the generator) of RMR treatment has to demonstrate that the existing market revenues are not sufficient to cover the costs of its operation (id.). ISO-NE and the generation entity negotiate and execute an RMR contract and submit it to the Federal Energy Regulatory Commission ("FERC"), which has jurisdiction over the approval of RMR contracts (id. at 123-124). Costs are determined for RMR contracts based on the operating costs for the generating facility to remain available for reliability purposes (id. at 123-124). While FERC investigates the just and reasonable cost of service for RMR costs, the costs, as filed with FERC, start to be immediately charged to the network load effective as of the proposed starting date of the RMR contract (id. at 124). MECo states that fixed monthly charges paid to RMR resources are allocated to network load within the affected reliability region during that month (id.). Since the Company has network loads within three of the reliability zones in Massachusetts, MECo is assessed RMR costs accordingly (id.).[2]

The Company claims that when it made its initial filing, the status of many of these RMR contracts at FERC was unknown, and thus, the costs were not included[3] (id. at 126). These RMR contracts have now been submitted to FERC for approval, and the Company is able to project what RMR costs are likely to be for this reconciliation period, March 1, 2006, through February 28, 2007 (id.). Also, the revised forecast more closely aligns itself with the actual RMR costs the Company has experienced from January 2006 through May 2006 (id.). This revised forecast for RMR costs is responsible for approximately $87 million of the proposed increase to rates (id. at 124-126).

The second reason MECo advances for the proposed transmission charge increase is that included in its initial filing was a one-time credit of $7 million that was provided to the Company in 2005 as a result of a misclassification of transmission costs (id. at 122). MECo states that, as the $7 million one-time item received in 2005 is non-recurring, it should not have been part of the initial forecast (id.). Therefore, in this supplemental filing, the Company removed the $7 million from its forecast of RMR costs (id.).

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2 The three reliability zones in Massachusetts are: (1) Northeastern Massachusetts and Boston; (2) Southeastern Massachusetts; and (3) Western and Central Massachusetts.

3 MECo states that the factors that have led the Company to increase transmission charges are its RMR contracts with the following generators: Mystic Development, LLC; Exelon New Boston Unit 1; the Pittsfield Generating Company; the Berkshire Power unit; and the Consolidated Edison West Springfield 3 unit (MECo Supp. at 125).

## III. POSITIONS OF THE PARTIES

### A. The Attorney General

The Attorney General argues that the Department should reject the Company's proposed transmission increase and keep in place the current average base transmission rate of 0.871 cents per KWH (Attorney General Comments at 1; Attorney General Reply Comments at 2-3). The Attorney General argues that the proposed increase is overstated, is designed to ensure an over-recovery of transmission costs, and that there is a lack of substantial evidence that the RMR costs will be reasonable or prudently incurred (Attorney General Comments at 1; Attorney General Reply Comments at 2-3). The Attorney General further argues that FERC will most likely establish a cost of service RMR rate lower than each RMR facility's filed rates (Attorney General Comments at 2). Last, the Attorney General contends that the Company was imprudent and unreasonable in incurring the RMR costs because it has not intervened at FERC to contest the filed RMR rates (Attorney General Comments at 3; Attorney General Reply Comments at 2-3).

### B. The Company

MECo argues that the issue is whether current cost recovery is more appropriate than accruing transmission cost deferrals that would be recovered in the future, not whether the Company may recover RMR costs (MECo Comments at 1-3). Further, the Company argues that raising transmission rates now would mitigate a larger under-recovery that MECo would otherwise propose in its next reconciliation period beginning March 1, 2007 (id.). The Company adds that its transmission service cost adjustment provision, M.D.T.E. No. 977-D, provides that MECo may file at any time to change factor adjustments should significant under-or over-recoveries occur (id. at 2).

## IV. ANALYSIS AND FINDINGS

The Department determines that further investigation is necessary into this filing. However, MECo's transmission service cost adjustment tariff, M.D.T.E. No. 977-D, provides that "the Company may file to change the factor adjustments at any time should significant over- or under-recoveries occur."[4] The Company has demonstrated that interim rate relief is needed due to an under-forecast of transmission costs. Interim approval is consistent with the transmission service cost adjustment tariff. Such interim relief will also avoid any deferrals of under-recovered transmission expenses, which would be recovered in the Company's next reconciliation filing with carrying costs at the customer deposit rate. Therefore, subject to further investigation, the Department approves the Company's average base transmission charge of 1.199 cents per KWH for effect September 1, 2006. Accordingly, subject to further investigation and reconciliation, the Department allows the following tariffs: M.D.T.E.

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[4] MECo's transmission service cost adjustment tariff was established as part of its restructuring settlement agreement approved in Massachusetts Electric Company, D.P.U./D.T.E. 96-25 (1997). The Department notes that the Attorney General was a signatory to D.P.U./D.T.E. 96-25, as well as the Company's merger settlement agreement approved in New England Electric Systems/Eastern Utilities Associates, D.T.E. 99-47 (2000). In Standard Offer Service Fuel Adjustments, D.T.E. 00-66, 00-67, 00-70 (December 4, 2000), the Attorney General also argued for the deferral of recovery for escalating generation-fuel costs, incurred expressly pursuant to electric restructuring settlements to which his office was a party (November 16, 2000 Tr. at 12, 30-32, 39-41). The Department determined there, and reaffirms here, that allowing costs to accumulate unrecovered is, in general and subject to few exceptions, not sound policy. Cf. D.T.E. 00-66, 00-67, 00-70, at 10-12, 13, n.18. We also determined to give effect to previously adjudicated or settled matters. Id.

Nos. 1089-A through 1099-A, and M.D.T.E. Nos. 478-A through 485-A. In our further investigation into the Company's reconciliation filing, including the increase in the transmission charge, the Attorney General may raise his concerns regarding RMR costs.

## V. ORDER

After due notice and consideration, it is

ORDERED: That the tariffs filed by Massachusetts Electric Company on August 1, 2006, for effect September 1, 2006, M.D.T.E. No. 1089-A through M.D.T.E. 1099-A, are ALLOWED; and it is

FURTHER ORDERED: That the tariffs filed by Nantucket Electric Company on August 1, 2006, for effect September 1, 2006, M.D.T.E. Nos. 478-A through 485-A, are ALLOWED; and it is

FURTHER ORDERED: That the proposed average base transmission charge is ALLOWED subject to further reconciliation pursuant to the Department's investigation; and it is

FURTHER ORDERED: That Massachusetts Electric Company and Nantucket Electric Company shall comply with all other directives contained in this Order.

By Order of the Department,

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Judith F. Judson, Chairman

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James Connelly, Commissioner

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W. Robert Keating, Commissioner

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Brian Paul Golden, Commissioner